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Standard Chartered

# Primary and Secondary Markets

CLACE Conference
May 2012

# The “Primary” Market

## Cash payment – no financing required

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## ‘Deferred payment’ terms – from 30 days to 30 years…

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'Relationship-driven' pricing is common.

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Buyer/Investor either was not invited to or aware of the primary issuance but likes the Borrower's/Obligor's risk and wants to earn additional yield.

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# HOW BIG IS 'THE MARKET' ??

# Primary and Secondary Markets

# Trade Volumes…

## Volume of World Merchandise Trade

| | |
|---|---|
| ▪ 2006 | US$ 11.8 trillion |
| ▪ 2007 | US$ 13.6 trillion |
| ▪ 2008 | US$ 15.7 trillion |
| ▪ 2009 | US$ 12.2 trillion |
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- **“Trade growth to slow in 2012…” – WTO press release April 12, 2012**

# Loan Volumes…

- **Volume of Global Loan Issuance:**
  - 2006 US$ 3.5 trillion
  - 2007 US$ 4 trillion
  - 2008 US$ 2.25 trillion
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  - **2011 US$ 3.8 trillion**

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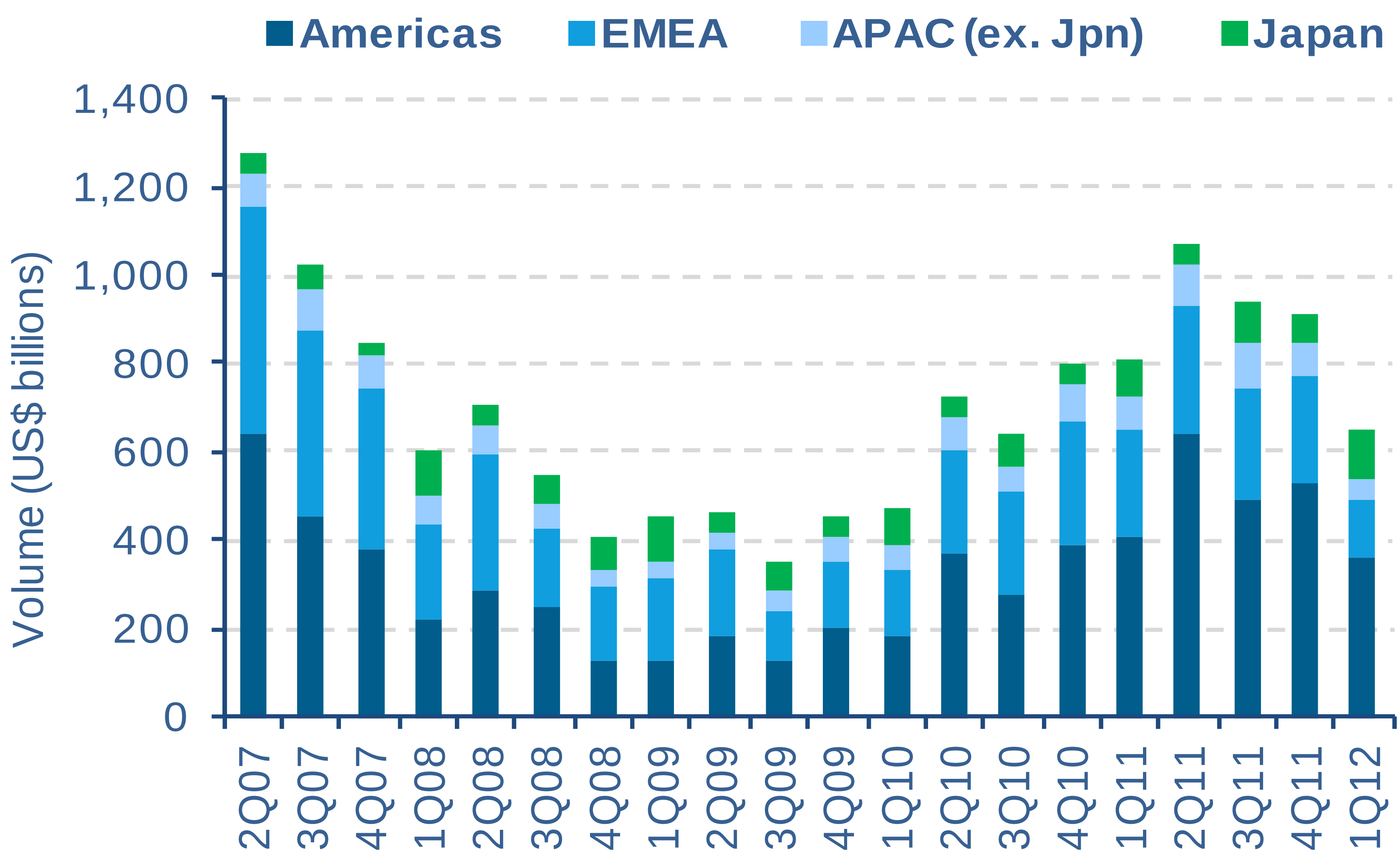
**"At $646B, 1Q12 global loan volume down 20% compared to year-ago levels" – Thomson Reuters LPC, April 9, 2012**

# Global Loan Issuance




Source: Thomson Reuters LPC

‘Risk on....’

‘...risk off’

# Market Developments…

**Global 'financial collapse'; huge liquidity injections from central banks – US$6trn!; 'QE', 'QE2' and rating downgrade in the US; EFSF, LTRO and 'debt swaps' in Europe; 'cost of funds' jump and tainted LIBOR; arrival of Basel III (and additional regulations to control risk-trading); and much else…**

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Fragile market recovery was hit again in early May – further denting investor confidence and forcing UST, Gilts, Bunds, etc, to record lows. Both NYSE and S&P 500 fell 7% (May 1$^{st}$ to May 18$^{th}$). Primary market pricing inched up and deals have been postponed; secondary investors 'on hold' or 'bidding low' or wish to buy on an *unfunded basis*…

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And yet, many Investors are ‘asset-hungry’, know it’s difficult to originate deals, and are aware that certain institutions are more ‘motivated’ to sell than others. Thus, the show must and will go on.

# ASIA

Robust growth forecasts scaled down in China, India, Indonesia… rates cut in Vietnam

Reserve requirement levels cut in China and new 'stimulus measures' announced

Settlement in RMB increasingly widespread; Bank L/C pricing dropped more than 50% in 2012…

Philippines 'outlook' revised to positive; Singapore has "strongest" banks in the world…

Top Banks are awash with local currency. Whereas US$ loan market has been dominated by refinancings from commodities trading companies (such as Glencore, Noble, Cargill, Trafigura).

Impressively, Taiwanese Banks joined numerous Chilean & Brazilian syndications – borrowers must be invest-grade and pay above L+200bps for 3yr tenors. Chinese Banks also joining Latin loan facilities (eg, Brasil Foods).

1yr Korean Bank pricing leapt from L+11-15bps in Dec 2007 to almost L+200bps in Dec 2011; Korea Development Bank borrows at L+100bps all-in for 1yr in late May

6mth Bangladeshi Bank paper offered at 300-400bps unfunded, L+350-425bps funded.

# ASIA

| | |
|---|---|
| **Borrower:** | Indonesia rubber-processing company |
| **Facility:** | USD 600 Million Facility – split between US$500m RCF & US$100m Term Loan, dated Aug 2011 |
| **Amount Sold:** | US$ 20,000,000 in Tranche A |
| **Maturity:** | Tr A matures in Aug 2014; Tr B matures in Aug 2016 |
| **Contractual Margin:** | Tr A – 4.70%; Tr B – 5.00% |
| **Price:** | **97.25%** |
| **Buyer:** | Indo-Dutch Bank |
| **Transfer fees:** | US$1,500 **paid by the Buyer** |
| **Settlement:** | T+10 days |
| **Type:** | Outright transfer …**breakfunding compensation** will apply as per LMA terms/conditions. |

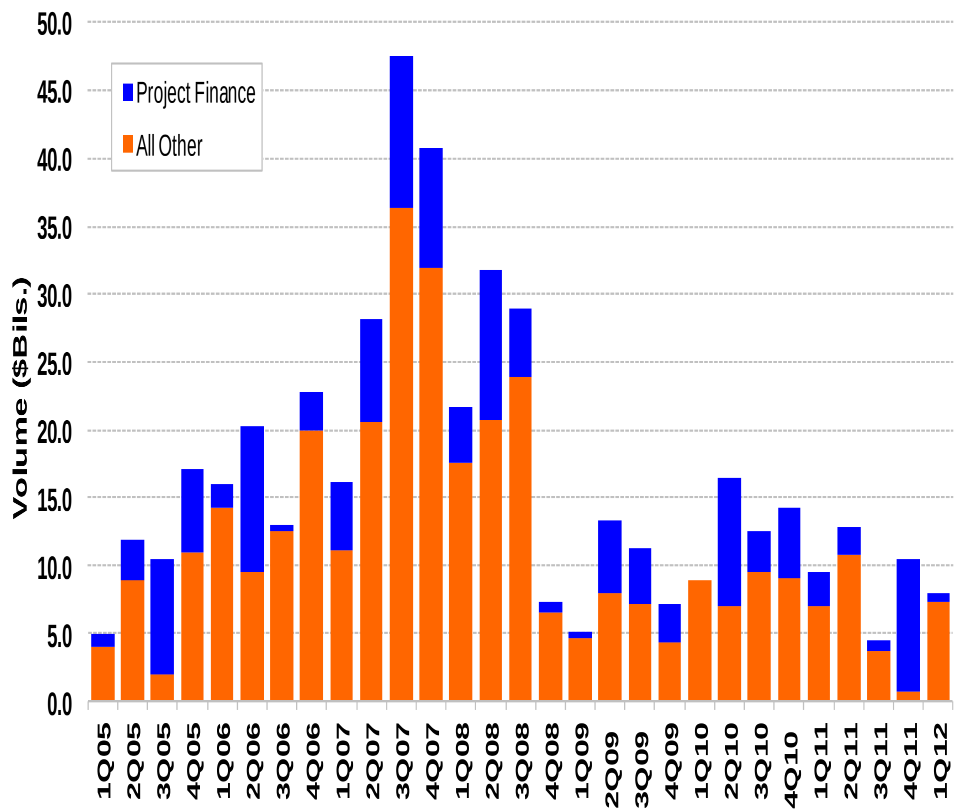
| | |
|---|---|
| **Borrower:** | **Top-Tier Chinese Bank** |
| **Facility:** | **Trade Advance (evidenced by MT799) of up to US$120,000,000** |
| **Maturity:** | **August 2012** |
| **Amount sold:** | **US$ 15 million** |
| **Interest:** | **>L+1% pa** |
| **Sale price:** | **L+1% pa** |
| **Buyer:** | **US based Investor** |
| **Type:** | ***Funded* Risk Participation** |

# MENA

▪ The **impact of the ongoing European sovereign debt-crisis continues** to put pressure on market volatility with negative implications for the regional loan market:

- **Middle East loan volumes reached US$ 7bn in Q1 2012, the slowest start of the year since 2004.**
- **Increased US$ funding costs**, **capital & liquidity constraints** have resulted in **some EU banks pulling out of strategic deals**. Prior to Q4, 2011, these Banks contributed significant in providing liquidity in the region. Some EU banks have opted to participate in in EUR tranches, for example, the recent US$ 850M IPIC refinancing (Q1 2012) attracted EUR 500M in commitments.
- **Dependence on regional investors** for funding continues as evidenced in the recent Etihad Etisalat (Mobily) SAR 10bn facility which was **supported only by local Saudi banks**.
- **"Club style" transactions** continue to be the 'option of choice' for regional borrowers as seen in the recent wave of "Dubai Inc" -related deals that have come to the market in 2012.

**Middle East Primary Loan Market:**
Quarterly Loan Volume




**Source:** Thomson Reuters LPC

# MENA

| | |
|---|---|
| **Borrower:** | Dubai Utility Company |
| **Facility:** | USD 450,000,000 **receivables-backed securitization** dated October 2011 |
| **Maturity:** | October 2016 |
| **Amount sold:** | US$ 25 Million |
| **Facility Margin:** | L+ 2.65% p.a. |
| **Price / All in Yield:** | 99.10 (equates to L+ 3.0% pa) |
| **Buyer:** | Dubai-based Bank |
| **Settlement:** | T+10 days |
| **Transfer fee:** | **Paid by Seller** |
| **Other Conditions:** | **Subject to documentation** |

| | |
|---|---|
| **Borrower:** | **Egyptian** Bank |
| **Facility:** | Letter of Credit |
| **Maturity:** | September 2012 |
| **Amount sold:** | US$ 8 Million |
| **Facility Margin:** | **> 1.5% p.a.** |
| **Sale price:** | 1.5% p.a. |
| **Buyers:** | African Bank, European Branch |
| **Type:** | ***Unfunded* Risk Participation** |

# EUROPE

"A Power Vacuum Is Choking The Euro Zone" – *NY Times*, May 27, 2012

Discord and disharmony among elected leaders and electorates…

…Greeks return to the voting booth on June 17th!

Spanish & Italian banks downgraded en masse; bond debt prices unsustainably high…

…while 2yr German debt at 0%!

Growth forecast hovering just above 0% despite ECB liquidity injections & refinancing window

Turkish primary Bank pricing risen from L+1% for 1yr trade loans to c.L+1.5%; secondary pricing fallen from almost L+4% (at end-2011) to L+2.5% (mid-May 2012)... …but inching up!

Russian stock market fell almost 25% from mid-March to May 23rd… …loan market down 66% y-o-y

Q4 2011 – several large banks aggressively sold assets – driving loan prices down and investor expectations up; trillions more to be sold, reportedly.

Q1 2012 – several of the commodity traders came to the market with refinancings but apart from this deal volume has been low: syndicated lending totaled $30.8bn in April 2012 (from 44 deals), down 67% on $94.1bn recorded during April 2011 (from 131 deals).

European bank investors care to buy on an unfunded basis – counterparty risk.

# EUROPE

| | |
|---|---|
| **Borrower:** | Top-Tier Turkish Bank |
| **Facility:** | US$ 1.44 Billion **2-tranche, 1-year trade finance term loan** dated August 2011 |
| **Amount:** | EUR 5,000,000 – Tr B |
| **Maturity:** | August 2012 |
| **Facility Margin:** | **Euribor + 0.50%** |
| **Price:** | **Euribor + 2.50%** |
| **Buyer:** | **German Subsidiary of Turkish Bank** |
| **Transfer fees:** | US$ 3,000 – split between Seller and Buyer |
| **Settlement:** | T+10 days |
| **Other Conditions:** | Outright sale; LMA Standard Documentation and Terms |

| | |
|---|---|
| **LC Issuing Bank:** | Top-Tier Turkish Bank |
| **Amount:** | EUR 2,000,000 |
| **Maturity:** | April 2013 |
| **Amount sold:** | **EUR 1,700,000** |
| **Sale Price:** | **80bppa** |
| **Buyer:** | **European Bank** |
| **Type:** | ***Unfunded* Risk participation** |

# LATIN AMERICA

Positive economic growth across the region – albeit 'moderated' in recent weeks – attracted FDI, caused currencies to appreciated and driven down pricing

Abundance of local liquidity (eg, pension funds), growth of local currency credit markets

Market regulations (eg, "IOF" tax changes in Brazil and increased reserve requirements in Peru) have affected Borrowers' ability to borrow in USD and Banks' ability to lend.

Despite wobbling FX rate, macro picture in Mexico has improved; 6mth Bank rates have steadied at L+60bps; local bond market receptive to foreign and domestic borrowers.

1yr lending rates in Brazil for top-tier Bank have fluctuated from 25bps (2007) to 200bps (2010) and back to L+120bps; top-2-3 Banks asking for 3yr money; top Corporates want 5-7yr funds

Similarly, 1yr lending rates in Chile dropped from L+200bps to around L+110-120bps in last 6mths; 3-4 top-tier Banks looking to secure 2-3yr borrowings

120-day trade deals in Peru are currently around L+75-80bps – up from L+50bps 3mths ago; very few have the ability to borrow for more than 3yrs

Colombia – similar story to Peru but without the *encaje* ruling (…for now)

Argentina & Venezuela – fortune favors the brave

# LATIN AMERICA

| | |
|---|---|
| Borrower: | **Offshore Brazilian Petrochemical Company** |
| Guarantor: | **Onshore Parent** |
| Facility: | US$1 Billion Unsecured Term Loan Facility dated June 2010 |
| Maturity Date: | May 2017 |
| Amount Sold: | US$ 7.5 Million |
| Facility Margin: | 179bppa |
| All-in Yield: | 99.875 (equates to all- in 1.825% p.a) |
| Buyer: | **Taiwanese Bank, Overseas Branch** |
| Other conditions: | **Outright; transfer fee split; breakfunding costs do not apply** |

| | |
|---|---|
| Borrower: | Top-Tier Chilean Bank |
| Facility: | US$325.0 Million Term Loan Facility |
| Maturity: | April 2013 |
| Amount sold: | US$ 9 Million |
| Margin: | 85.0 bps |
| All in Yield/Price: | 99.00 (ca. 137.7bps) |
| Buyer: | **Spanish Bank, Overseas Branch** |
| Settlement: | T+7 (target...) |
| Type: | **Outright** |
| Transfer fee: | **USD 3,500.00** (to be paid by Seller) |

# Thank you for your patience…

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**Brendan Herley**

**Standard Chartered Bank**

**Tel: 212-667-0268**

**Email:** brendan.herley@sc.com